

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 FEA-01 OIC-02

AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00 FRB-03

H-01 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05

PA-01 AID-05 SS-15 STR-04 ITC-01 TRSE-00 USIA-06

PRS-01 SP-02 OMB-01 /109 W

-----222011Z 043396 /41

P R 221602Z MAR 77

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 3328

INFO ALL EC CAPITALS 3313

USMISSION GENEVA

USDEL MTN GENEVA

USMISSION OECD PARIS

AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMEMBASSY SINGAPORE

C O N F I D E N T I A L EC BRUSSELS 02756

E.O. 11652: GDS

TAGS: UNCTAD, ETRD, EPAP, EEC

SUBJECT: EC COMMISSION OFFICIAL REPORTS ON RESULTS OF DISCUSSIONS  
WITH SOUTHEAST ASIAN OFFICIALS ON POSSIBLE NATURAL  
RUBBER AGREEMENT

REF: (A) EC BRUSSELS 1960

1. SUMMARY: COMMISSION STAFF OFFICIALS HAVE JUST RETURNED  
FROM A VISIT TO SOUTHEAST ASIA WHERE THEY DISCUSSED A POSSIBLE  
INTERNATIONAL NATURAL RUBBER (NR) AGREEMENT WITH PRODUCING  
COUNTRIES. NR PRODUCERS WANT TO COOPERATE WITH CONSUMERS IN  
DEVELOPING AGREEMENT INVOLVING A BUFFER STOCK AND EQUAL  
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SHARING OF RIGHTS AND COSTS OF A STOCK. PRODUCERS ARE CON-  
CERNED OVER POTENTIAL OF POLYISOPRENE AS A SUBSTITUTE FOR  
NR AND CONSEQUENTLY WANT AN AGREEMENT TO STABILIZE RUBBER  
PRICES AT LOW ENOUGH LEVEL TO AVOID ENCOURAGING PRO-  
DUCTION OF THIS SUBSTITUTE. PRODUCERS ALSO WANT TO  
STABILIZE PRICES TO HELP PROMOTE INVESTMENTS IN MAJOR  
REPLANTING PROGRAM OF NR TREES. END SUMMARY.

2. COMMISSION OFFICIAL TRAN VAN THINH, WHO IS HEADING UP EC COMMISSION DISCUSSIONS OF INTERNATIONAL NR AGREEMENT, TELLS MISSION OFFICER THAT HIS TALKS IN SOUTHEAST ASIA WITH MALAYSIAN, INDONESIAN AND THAI OFFICIALS WENT WELL. IN KUALA LUMPUR HE MET WITH MINISTER MUSA BIN HITAM AND HIS ASSISTANT ON RUBBER MATTERS, DR. SEKHAR. HE ALSO MET WITH KEY OFFICIALS HANDLING RUBBER IN JAKARTA AND BANGKOK. TRAN REPORTS THAT THESE OFFICIALS WERE CONCERNED OVER POTENTIAL NEW COMPETITION OF POLYISOPRENE AS A SUBSTITUTE FOR NATURAL RUBBER. ALL ASIAN OFFICIALS WERE ANXIOUS TO ADOPT AN ACCOMMODATING POSITION WITH CONSUMING COUNTRIES IN ORDER TO OBTAIN NATURAL RUBBER AGREEMENT AND THEREBY TO HELP AVOID ENCOURAGING PRODUCTION OF THIS SYNTHETIC. TRAN ADDS THAT NR PRODUCERS DO NOT WANT TO INTERFERE WITH INDUSTRIALIZED COUNTRIES' CURRENT SYNTHETIC RUBBER PRODUCTION. INSTEAD, THEY WANT TO COMPLEMENT EACH OTHER'S PRODUCTION AND TO COOPERATE IN EXCHANGING INFORMATION AND IN DEVELOPING INVESTMENT PLANS.

3. TRAN SAYS NR PRODUCERS OUTLINED FOLLOWING AS MAJOR POINTS OF AN AGREEMENT:

A. NR PRICE: THE PRICE SHOULD BE STABILIZED AT A LOW ENOUGH LEVEL TO AVOID ENCOURAGING PRODUCTION OF POLYISOPRENE. PRICES OF NR AND CURRENT SYNTHETICS SHOULD BE KEPT INDEPENDENT OF EACH OTHER, BUT HOPEFULLY PRODUCERS WILL ENDEAVOR TO HAVE THESE PRICES MORE IN CONFIDENTIAL

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PARALLEL.

B. MARKET SHARES: THE NR PRODUCERS ARE NOT SEEKING TO INCREASE THEIR SHARE OF THE RUBBER MARKET BUT THEY WOULD LIKE TO MAINTAIN THEIR CURRENT SHARE. THEY WOULD LIKE ASSISTANCE FROM THE CONSUMERS IN PRODUCING NR POWDER; THIS WILL REDUCE SHIPPING COSTS.

C. BUFFER STOCK: PRODUCERS ENVISAGE A STOCK AMOUNTING TO ABOUT 10 PERCENT OF NR TRADE OR ROUGHLY 350,000 MT. THEY WOULD LIKE TO SHARE EQUALLY WITH CONSUMERS THE COST OF BUILDING UP THIS STOCK OVER A FIVE-YEAR PERIOD. THEY DO NOT FAVOR A LEVY TO FINANCE THE STOCK BECAUSE THIS WOULD PLACE A HEAVY BURDEN ON PRODUCERS. THE PRODUCERS ARE WILLING TO SHARE EQUALLY WITH CONSUMERS THE RIGHTS AND OBLIGATIONS OF THIS STOCK AND ARE READY TO MAINTAIN A CEILING INTERVENTION PRICE AS WELL AS A FLOOR PRICE. THE STOCK COULD BE LOCATED WHERE THE NR EXCHANGE IS PLACED, I.E., LONDON OR NEW

YORK. PRODUCERS BELIEVE THAT STOCK INTERVENTION IS THE ONLY EFFECTIVE WAY OF MAINTAINING AN AGREED-UPON PRICE BRACKET. PRODUCERS DO NOT SEE A NEED TO BUILD UP THE ENTIRE STOCK AT THIS TIME.

4. TRAN INDICATES THE PRODUCERS FACE ACUTE DIFFICULTIES IN REPLACING THEIR AGING RUBBER TREES. THEY BELIEVE THAT AN AGREEMENT WOULD HELP STABILIZE NR PRICES AND THEREBY ASSURE INVESTOR CONFIDENCE IN FINANCING MAJOR REPLANTING PROGRAMS.

5. TWO LEADING EUROPEAN OFFICIALS REPRESENTING THE SYNTHETIC RUBBER INDUSTRY ACCOMPANIED TRAN ON HIS TRIP. TRAN PLANS TO REPORT ON THE RESULTS OF HIS DISCUSSIONS TO THE EUROPEAN RUBBER INDUSTRY ASSOCIATION ON MARCH 23. HE ALSO PLANS TO VISIT MEMBER STATE CAPITALS TO DISCUSS THE RESULTS OF HIS TRIP AFTER RETURNING FROM WASHINGTON. CONFIDENTIAL

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NEAR THE END OF APRIL THE EC RAW MATERIALS WORKING GROUP WILL BEGIN PREPARING FOR NEXT ROUND OF UNCTAD NR DISCUSSIONS. THE COMMISSION STAFF WILL LIKELY RECOMMEND EC PARTICIPATION IN NR AGREEMENT AT THAT TIME AND OUTLINE POSSIBLE OPTIONS FOR SUCH AN AGREEMENT. TRAN ADDS THAT HE WOULD LIKE TO MAKE SURE THAT ANY EC COMMISSION VIEWS COINCIDE WITH THOSE OF THE US. HINTON

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